

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

Form N-CSRS

July 30, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-22467**

**Kayne Anderson Midstream/Energy Fund, Inc.**

(Exact name of registrant as specified in charter)

811 Main Street, 14th Floor, Houston, Texas  
(Address of principal executive offices)

77002  
(Zip code)

David Shladovsky, Esq.

KA Fund Advisors, LLC, 811 Main Street, 14th Floor, Houston, Texas 77002

(Name and address of agent for service)

Registrant's telephone number, including area code: (713) 493-2020

Date of fiscal year end: November 30, 2018

Date of reporting period: May 31, 2018

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office

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of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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**Item 1. Reports to Stockholders.**

The report of Kayne Anderson Midstream/Energy Fund, Inc. (the Registrant ) to stockholders for the semi-annual period ended May 31, 2018 is attached below.

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*Midstream/Energy Fund*

**KMF Semi-Annual Report**

May 31, 2018

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS:** This report of Kayne Anderson Midstream/Energy Fund, Inc. (the Fund) contains forward-looking statements as defined under the U.S. federal securities laws. Generally, the words believe, expect, intend, estimate, anticipate, project, will and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to materially differ from the Fund's historical experience and its present expectations or projections indicated in any forward-looking statement. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; MLP industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in the Fund's filings with the Securities and Exchange Commission (SEC). You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. The Fund undertakes no obligation to publicly update or revise any forward-looking statements made herein. There is no assurance that the Fund's investment objectives will be attained.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

**Fund Overview**

Kayne Anderson Midstream/Energy Fund, Inc. is a non-diversified, closed-end fund. We commenced operations on November 24, 2010. Our shares of common stock are listed on the New York Stock Exchange under the symbol KMF.

Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to our stockholders. We seek to achieve that investment objective by investing at least 80% of our total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. We anticipate that the majority of our investments will consist of investments in Midstream MLPs and Midstream Companies. Please see the Glossary of Key Terms for a description of these investment categories and for the meaning of capitalized terms not otherwise defined herein.

As of May 31, 2018, we had total assets of \$443 million, net assets applicable to our common stockholders of \$309 million (net asset value of \$14.02 per share), and 22.0 million shares of common stock outstanding. As of May 31, 2018, we held \$405 million in equity investments and \$22 million in debt investments.

**Recent Events**

*Proposed Merger with Kayne Anderson Energy Total Return Fund, Inc.*

On February 15, 2018, KA Fund Advisors, LLC ( Kafa ) announced the proposed merger of Kayne Anderson Energy Total Return Fund, Inc. ( KYE ) with and into Kayne Anderson Midstream/Energy Fund, Inc. (the Fund or KMF )(the Reorganization ). Subject to KYE stockholder approval, KYE common stockholders will be issued KMF common stock, and KMF will acquire substantially all the assets and liabilities of KYE.

The exchange ratio will be based on the relative NAVs per share of each fund immediately prior to the closing of the Reorganization. As of May 31, 2018, KMF s NAV per share was \$14.02, and KYE s was \$10.26. For illustrative purposes, if these were the NAVs on the day prior to closing of the Reorganization, then KYE stockholders would be issued approximately 0.73 shares of KMF for each share of KYE. It is currently expected that the merger will be completed in the fiscal quarter ending in August 2018, subject to obtaining stockholder approval, compliance with all regulatory requirements and satisfaction of customary closing conditions. The Reorganization is expected to qualify as a tax-free reorganization for federal income tax purposes, and as a result, the Reorganization is not expected to be taxable to stockholders of either KMF or KYE.

The Board of Directors of KMF and KYE determined that the proposed Reorganization is in the best interests of each fund and its stockholders. The funds have similar investment strategies and portfolios, and the combined fund will pursue an investment objective of obtaining a high total return, with an emphasis on making cash distributions, by investing in Midstream MLPs, Midstream Companies and other Energy Companies.

On June 28, 2018, KYE announced that its special meeting of stockholders was adjourned to July 17, 2018 and on that date the meeting was subsequently adjourned to July 31, 2018. KYE stockholders are being asked to vote on the Reorganization.

A Frequently Asked Questions document regarding the Reorganization can be found at [www.kaynefunds.com](http://www.kaynefunds.com). More information on the Reorganization is contained in the definitive joint proxy statement/prospectus filed with the Securities and Exchange Commission (the SEC ) on May 30, 2018 and mailed to KMF and KYE stockholders.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

**Results of Operations For the Three Months Ended May 31, 2018**

*Investment Income.* Investment income totaled \$0.3 million for the quarter and consisted primarily of net dividends and distributions and interest income on our investments. We received \$7.1 million of dividends and distributions, of which \$7.6 million was treated as return of capital. Return of capital was increased by \$2.2 million due to 2017 tax reporting information that we received in fiscal 2018. Interest income was \$0.8 million. We also received \$0.9 million of paid-in-kind dividends during the quarter, which are not included in investment income, but are reflected as an unrealized gain.

*Operating Expenses.* Operating expenses totaled \$3.1 million, including \$1.3 million of investment management fees, \$1.0 million of interest expense, \$0.4 million of preferred stock distributions and \$0.4 million of other operating expenses (including non-cash write-off of shelf offering costs of \$0.04 million). Interest expense includes \$0.2 million of non-cash amortization of debt issuance costs.

*Net Investment Loss.* Our net investment loss totaled \$2.8 million.

*Net Realized Losses.* We had net realized losses of \$4.5 million, which included \$0.1 million of net realized gains from option activity.

*Net Change in Unrealized Gains.* We had a net increase in unrealized gains of \$27.0 million. The net increase consisted of \$27.1 million of unrealized gains from investments and \$0.1 million of unrealized losses from option activity.

*Net Increase in Net Assets Resulting from Operations.* We had an increase in net assets resulting from operations of \$19.7 million. This increase was comprised of net investment loss of \$2.8 million, net realized losses of \$4.5 million and a net increase in unrealized gains of \$27.0 million, as noted above.

**Distributions to Common Stockholders**

We pay quarterly distributions to our common stockholders, funded generally by net distributable income ( NDI ) generated from our portfolio investments. NDI is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. NDI is not a financial measure under the accounting principles generally accepted in the United States of America ( GAAP ). Refer to the Reconciliation of NDI to GAAP section below for a reconciliation of this measure to our results reported under GAAP.

Income from portfolio investments includes (a) cash dividends and distributions, (b) paid-in-kind dividends received (i.e., stock dividends), (c) interest income from debt securities and commitment fees from private investments in public equity ( PIPE investments ) and (d) net premiums received from the sale of covered calls.

Operating expenses include (a) investment management fees paid to our investment adviser (Kafa), (b) other expenses (mostly comprised of fees paid to other service providers), (c) accrual for estimated excise taxes (if any) and (d) interest expense and preferred stock distributions.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****MANAGEMENT DISCUSSION****(UNAUDITED)****Net Distributable Income (NDI)**

(amounts in millions, except for per share amounts)

|  | <b>Three Months<br/>Ended<br/>May 31,<br/>2018</b> |
|--|--|
| <b>Distributions and Other Income from Investments</b>           |  |
| Dividends <sup>(1)</sup>   | \$ 7.1   |
| Paid-In-Kind Dividends <sup>(1)</sup>                            | 0.9  |
| Interest and Other Income  | 0.8  |
| Net Premiums Received from Call Options Written                  | 0.1  |
| <b>Total Distributions and Other Income from Investments</b>     | <b>8.9</b>   |
| <b>Expenses</b>  |  |
| Investment Management Fee  | (1.3)  |
| Other Expenses   | (0.3)  |
| Interest Expense   | (0.9)  |
| Preferred Stock Distributions                                    | (0.4)  |
| <b>Net Distributable Income (NDI)</b>                            | <b>\$ 6.0</b>                                      |
| <b>Weighted Shares Outstanding</b>                               | <b>22.0</b>  |
| <b>NDI per Weighted Share Outstanding</b>                        | <b>\$ 0.27</b>                                     |
| <b>Adjusted NDI per Weighted Share Outstanding<sup>(2)</sup></b> | <b>\$ 0.25</b>                                     |
| <b>Distributions paid per Common Share<sup>(3)</sup></b>         | <b>\$ 0.30</b>                                     |

- (1) See Note 2 – Significant Accounting Policies to the Financial Statements for additional information regarding paid-in-kind and non-cash dividends and distributions.
- (2) Adjusted NDI excludes distributions from Macquarie Infrastructure Corporation and SemGroup Corporation attributable to the first quarter of fiscal 2018 (\$0.4 million in aggregate). Both company's distributions had ex-dividend dates in early March 2018, and were included in Adjusted NDI for the first quarter.
- (3) The distribution of \$0.30 per share for the second quarter of fiscal 2018 was paid on July 13, 2018. Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants of our debt agreements and terms of our preferred stock. Because our quarterly distributions are funded primarily by NDI generated from our portfolio investments, the Board of Directors, in determining our quarterly distribution to common stockholders, gives a significant amount of consideration to the NDI and Adjusted NDI generated in the current quarter, as well as the NDI that our portfolio is expected to generate over the next twelve months. The



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Board of Directors also considers other factors, including but not limited to, realized and unrealized gains generated by the portfolio.

Following the completion of the Reorganization, KMF intends to begin paying distributions on a monthly basis beginning in September 2018.

### **Reconciliation of NDI to GAAP**

The difference between distributions and other income from investments in the NDI calculation and total investment income as reported in our Statement of Operations is reconciled as follows:

GAAP recognizes that a significant portion of the cash distributions received from MLPs is characterized as a return of capital and therefore excluded from investment income, whereas the NDI calculation includes the return of capital portion of such distributions.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

NDI includes the value of paid-in-kind dividends and distributions whereas such amounts are not included as investment income for GAAP purposes, but rather are recorded as unrealized gains upon receipt.

NDI includes commitment fees from PIPE investments, whereas such amounts are generally not included in investment income for GAAP purposes, but rather are recorded as a reduction to the cost of the investment.

Certain of our investments in debt securities were purchased at a discount or premium to the par value of such security. When making such investments, we consider the security's yield to maturity, which factors in the impact of such discount (or premium). Interest income reported under GAAP includes the non-cash accretion of the discount (or amortization of the premium) based on the effective interest method. When we calculate interest income for purposes of determining NDI, in order to better reflect the yield to maturity, the accretion of the discount (or amortization of the premium) is calculated on a straight-line basis to the earlier of the expected call date or the maturity date of the debt security.

We may sell covered call option contracts to generate income or to reduce our ownership of certain securities that we hold. In some cases, we are able to repurchase these call option contracts at a price less than the call premium that we received, thereby generating a profit. The premium we receive from selling call options, less (i) the amount that we pay to repurchase such call option contracts and (ii) the amount by which the market price of an underlying security is above the strike price at the time a new call option is written (if any), is included in NDI. For GAAP purposes, premiums received from call option contracts sold are not included in investment income. See Note 2 Significant Accounting Policies for a full discussion of the GAAP treatment of option contracts.

The treatment of expenses included in NDI also differs from what is reported in the Statement of Operations as follows:

The non-cash amortization or write-offs of capitalized debt issuance costs and preferred stock offering costs related to our financings is included in interest expense and distributions on preferred stock for GAAP purposes, but is excluded from our calculation of NDI.

NDI also includes recurring payments (or receipts) on interest rate swap contracts or the amortization of termination payments on interest rate swap contracts entered into in anticipation of an offering of unsecured notes ( Notes ) or mandatory redeemable preferred stock ( MRP Shares ). The termination payments on interest rate swap contracts are amortized over the term of the Notes or MRP Shares issued. For GAAP purposes, these amounts are included in the realized gains/losses section of the Statement of Operations.

Under GAAP, excise taxes are accrued when probable and estimable. For NDI, we exclude excise tax that is unrelated to the current fiscal period.

For GAAP purposes, offering costs incurred related to the issuance of common stock reduce paid-in capital when stock is issued. Certain costs related to registration statements or shelf offerings may be written off once the registration statement or prospectus usefulness has expired. The non-cash amortization or write-off of these offering costs is included in operating expense for GAAP purposes, but is excluded from our calculation of NDI.

**Liquidity and Capital Resources**

At May 31, 2018, we had total leverage outstanding of \$126 million, which represented 28% of total assets. At quarter end, total leverage was comprised of \$91 million of Notes and \$35 million of MRP Shares. At May 31, 2018, we did not have any borrowings outstanding under our unsecured revolving credit facility (the Credit Facility ) or our unsecured revolving term loan (the Term Loan ), and we had \$11 million of cash and cash equivalents. As of July 20, 2018, we had no borrowings outstanding under our Credit Facility or Term Loan, and we had \$1 million of cash and cash equivalents.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

Our Credit Facility has a total commitment of \$75 million and matures on November 9, 2018. The interest rate on outstanding loan balances may vary between LIBOR plus 1.60% and LIBOR plus 2.25%, depending on our asset coverage ratios. We pay a fee of 0.30% per annum on any unused amounts of the Credit Facility.

Our Term Loan has a total commitment of \$35 million and matures on July 25, 2019. Borrowings under the Term Loan have an interest rate of LIBOR plus 1.50%. Amounts borrowed under the Term Loan may be repaid and subsequently borrowed. We pay a fee of 0.25% per annum on any unused amount of the Term Loan.

At May 31, 2018, we had \$91 million of Notes outstanding that mature between 2021 and 2023 and we had \$35 million of MRP Shares outstanding that are subject to mandatory redemption in 2021.

At May 31, 2018, our asset coverage ratios under the Investment Company Act of 1940, as amended (the 1940 Act ), were 478% for debt and 345% for total leverage (debt plus preferred stock). Our target asset coverage ratio with respect to our debt is 430%. At times we may be above or below this target depending on market conditions as well as certain other factors, including our target total leverage asset coverage ratio of 320% and the basic maintenance amount as stated in our rating agency guidelines.

As of May 31, 2018, our total leverage consisted entirely of fixed rate obligations. At such date, the weighted average interest/dividend rate on our total leverage was 3.93%.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****PORTFOLIO SUMMARY****(UNAUDITED)****Portfolio of Long-Term Investments by Category<sup>(1)</sup>****May 31, 2018****November 30, 2017****Top 10 Holdings by Issuer**

| <b>Holding</b>                                 | <b>Category<sup>(1)</sup></b> | <b>Percent of Long-Term Investments as of</b> |                          |
|--|-------------------------------|---|--------------------------|
|  |                               | <b>May 31, 2018</b>                           | <b>November 30, 2017</b> |
| 1. ONEOK, Inc.                                 | Midstream Company             | 10.5%   | 7.8%                     |
| 2. The Williams Companies, Inc. <sup>(2)</sup> | Midstream Company             | 8.1   | 6.0                      |
| 3. Targa Resources Corp.                       | Midstream Company             | 8.1   | 7.1                      |
| 4. Plains GP Holdings, L.P. <sup>(3)</sup>     | Midstream Company             | 8.0   | 6.6                      |
| 5. Pembina Pipeline Corporation                | Midstream Company             | 4.6   | 1.7                      |
| 6. Energy Transfer Partners, L.P.              | Midstream MLP                 | 4.4   | 3.8                      |
| 7. KNOT Offshore Partners LP                   | Midstream Company             | 3.8   | 3.7                      |
| 8. Kinder Morgan, Inc.                         | Midstream Company             | 3.8   | 1.1                      |
| 9. MPLX LP                                     | Midstream MLP                 | 3.7   | 3.6                      |
| 10. GasLog Partners LP                         | Midstream Company             | 3.6   | 3.8                      |

- (1) See Glossary of Key Terms for definitions. Midstream Company & MLP Affiliate category includes Midstream Companies engaged in marine transportation (13% as of May 31, 2018 and 16% as of November 30, 2017).
- (2) On May 17, 2018, The Williams Companies, Inc. ( WMB ) and Williams Partners L.P. ( WPZ ) announced an agreement under which WMB will acquire all common units of WPZ in a stock-for-unit transaction. As of May 31, 2018 and November 30, 2017, the Fund did not own any WPZ units.
- (3) Our investment includes our holdings of Plains GP Holdings, L.P. ( PAGP ) and our interest in Plains AAP, L.P. ( PAGP-AAP ). Our ownership of PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or Plains All American Pipeline, L.P. units at our option.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****MAY 31, 2018****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

| Description   | No. of<br>Shares/Units | Value    |
|---|------------------------|----------|
| <b>Long-Term Investments 138.3%</b>                                 |                        |          |
| <b>Equity Investments<sup>(1)</sup> 131.3%</b>                      |                        |          |
| <b>United States 118.6%</b>   |                        |          |
| <b>Midstream Companies<sup>(2)</sup> 82.3%</b>                      |                        |          |
| Capital Product Partners L.P. Class B Units <sup>(3)(4)(5)(6)</sup> | 606                    | \$ 4,800 |
| Enbridge Energy Management, L.L.C. <sup>(7)(8)</sup>                | 1,629                  | 15,476   |
| GasLog Partners LP <sup>(5)</sup>                                   | 636                    | 15,545   |
| Golar LNG Partners LP <sup>(5)</sup>                                | 534                    | 8,962    |
| Höegh LNG Partners LP <sup>(5)</sup>                                | 507                    | 8,774    |
| Kinder Morgan, Inc.   | 975                    | 16,265   |
| KNOT Offshore Partners LP <sup>(5)</sup>                            | 781                    | 16,405   |
| ONEOK, Inc. <sup>(9)</sup>  | 658                    | 44,850   |
| Plains GP Holdings, L.P. <sup>(5)(10)</sup>                         | 703                    | 17,262   |
| Plains GP Holdings, L.P. Plains AAP, L.P. <sup>(5)(10)(11)</sup>    | 690                    | 16,942   |
| SemGroup Corporation  | 246                    | 6,220    |
| Tallgrass Energy GP, LP <sup>(5)(12)</sup>                          | 604                    | 12,992   |
| Targa Resources Corp.   | 714                    | 34,733   |
| The Williams Companies, Inc. <sup>(13)</sup>                        | 1,296                  | 34,800   |
|   |                        | 254,026  |
| <b>Midstream MLPs<sup>(2)(14)</sup> 34.3%</b>                       |                        |          |
| Andeavor Logistics LP   | 103                    | 4,406    |
| BP Midstream Partners LP  | 155                    | 3,314    |
| Buckeye Partners, L.P. <sup>(10)</sup>                              | 164                    | 5,907    |
| Buckeye Partners, L.P. Class C Units <sup>(3)(4)(7)(10)(15)</sup>   | 182                    | 5,849    |
| Cheniere Energy Partners, L.P.                                      | 19                     | 666      |
| Crestwood Equity Partners LP  | 132                    | 4,419    |
| DCP Midstream, LP   | 224                    | 9,372    |
| Energy Transfer Partners, L.P.                                      | 986                    | 18,727   |
| Enterprise Products Partners L.P.                                   | 378                    | 10,929   |
| EQT Midstream Partners, LP  | 34                     | 1,881    |
| Global Partners LP  | 284                    | 4,936    |
| Magellan Midstream Partners, L.P.                                   | 45                     | 3,159    |
| MPLX LP   | 439                    | 15,771   |
| Noble Midstream Partners LP   | 13                     | 645      |
| Oasis Midstream Partners LP   | 14                     | 261      |
| Phillips 66 Partners LP   | 39                     | 2,020    |
| Shell Midstream Partners, L.P.                                      | 45                     | 1,016    |
| Summit Midstream Partners, LP                                       | 234                    | 3,794    |
| TC PipeLines, LP  | 89                     | 2,172    |
| Western Gas Partners, LP  | 130                    | 6,694    |

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****MAY 31, 2018**

(amounts in 000 s, except number of option contracts)

**(UNAUDITED)**

| Description  | No. of<br>Shares/Units   | Value                    |                             |              |
|--|--------------------------|--------------------------|-----------------------------|--------------|
| <b>Other Energy Companies 2.0%</b>                   |                          |                          |                             |              |
| Marathon Petroleum Corporation                       | 6                        | \$ 459                   |                             |              |
| NextEra Energy Partners, LP                          | 73                       | 3,264                    |                             |              |
| Phillips 66  | 4                        | 489                      |                             |              |
| Valero Energy Corporation                            | 4                        | 521                      |                             |              |
| Viper Energy Partners LP <sup>(16)</sup>             | 45                       | 1,453                    |                             |              |
|  |                          | 6,186                    |                             |              |
| <b>Total United States (Cost \$346,931)</b>          |                          | 366,150                  |                             |              |
| <b>Canada 12.7%</b>                                  |                          |                          |                             |              |
| <b>Midstream Companies<sup>(2)</sup> 12.7%</b>       |                          |                          |                             |              |
| Enbridge Inc. <sup>(8)</sup>                         | 345                      | 10,716                   |                             |              |
| Pembina Pipeline Corporation                         | 566                      | 19,687                   |                             |              |
| TransCanada Corporation                              | 215                      | 8,989                    |                             |              |
| <b>Total Canada (Cost \$39,935)</b>                  |                          | 39,392                   |                             |              |
| <b>Total Equity Investments (Cost \$386,866)</b>     |                          | 405,542                  |                             |              |
|  | <b>Interest<br/>Rate</b> | <b>Maturity<br/>Date</b> | <b>Principal<br/>Amount</b> | <b>Value</b> |
| <b>Debt Instruments 7.0%</b>                         |                          |                          |                             |              |
| <b>United States 5.4%</b>                            |                          |                          |                             |              |
| <b>Upstream 5.4%</b>                                 |                          |                          |                             |              |
| California Resources Corporation <sup>(3)(10)</sup>  | 8.000%                   | 12/15/22                 | \$ 7,525                    | 6,679        |
| Eclipse Resources Corporation                        | 8.875                    | 7/15/23                  | 9,100                       | 8,599        |
| Jones Energy Holdings, LLC                           | 9.250                    | 3/15/23                  | 2,600                       | 1,625        |
| <b>Total United States (Cost \$17,323)</b>           |                          |                          |                             | 16,903       |
| <b>Canada 1.6%</b>                                   |                          |                          |                             |              |
| <b>Upstream 1.6%</b>                                 |                          |                          |                             |              |
| Jupiter Resources Inc. <sup>(3)</sup> (Cost \$9,534) | 8.500                    | 10/1/22                  | 11,480                      | 4,822        |
| <b>Total Debt Investments (Cost \$26,857)</b>        |                          |                          |                             | 21,725       |
| <b>Total Long-Term Investments (Cost \$413,723)</b>  |                          |                          |                             | 427,267      |



|   | No. of<br>Shares/Units | Value   |
|---|------------------------|---------|
| <b>Short-Term Investment 2.8%</b>   |                        |         |
| <b>Money Market Fund 2.8%</b>   |                        |         |
| JPMorgan 100% U.S. Treasury Securities Money Market Fund Capital Shares, 1.62% <sup>(7)</sup><br>(Cost \$8,687) | 8,687                  | 8,687   |
| <b>Total Investments 141.1% (Cost \$422,410)</b>  |                        | 435,954 |

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****MAY 31, 2018****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

|   | <b>Strike Price</b> | <b>Expiration Date</b> | <b>No. of Contracts</b> | <b>Notional Amount<sup>(18)</sup></b> | <b>Value</b>      |
|---|---------------------|------------------------|-------------------------|---------------------------------------|-------------------|
| <b>Liabilities</b>  |                     |                        |                         |                                       |                   |
| <b>Call Option Contracts Written<sup>(19)</sup></b>                 |                     |                        |                         |                                       |                   |
| <b>United States</b>  |                     |                        |                         |                                       |                   |
| <b>Midstream Company</b>  |                     |                        |                         |                                       |                   |
| ONEOK, Inc.   | \$ 70.00            | 7/20/18                | 350                     | \$ 2,386                              | \$ (42)           |
| ONEOK, Inc.   | 72.50               | 7/20/18                | 350                     | 2,386                                 | (17)              |
| <b>Total Call Option Contracts Written (Premiums Received \$51)</b> |                     |                        |                         |                                       | <b>(59)</b>       |
| <b>Debt</b>   |                     |                        |                         |                                       | <b>(91,000)</b>   |
| <b>Mandatory Redeemable Preferred Stock at Liquidation Value</b>    |                     |                        |                         |                                       | <b>(35,000)</b>   |
| <b>Other Liabilities in Excess of Other Assets</b>                  |                     |                        |                         |                                       | <b>(1,060)</b>    |
| <b>Net Assets Applicable to Common Stockholders</b>                 |                     |                        |                         |                                       | <b>\$ 308,835</b> |

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Refer to the [Glossary of Key Terms](#) for the definitions of Midstream Companies and Midstream MLPs.
- (3) The Fund's ability to sell this security is subject to certain legal or contractual restrictions. As of May 31, 2018, the aggregate value of restricted securities held by the Fund was \$39,092 (8.8% of total assets), which included \$28,443 of Level 2 securities and \$10,649 of Level 3 securities. See Note 7 [Restricted Securities](#).
- (4) Fair valued security. See Notes 2 and 3 in Notes to Financial Statements.
- (5) This company is structured like an MLP, but is not treated as a publicly-traded partnership for regulated investment company ( [RIC](#) ) qualification purposes.
- (6) Class B Units are convertible on a one-for-one basis into common units of Capital Product Partners L.P. ( [CPLP](#) ) and are senior to the common units in terms of liquidation preference and priority of distributions (liquidation preference of \$9.00 per unit). The Class B Units

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pay quarterly cash distributions and are convertible at any time at the option of the holder. The Class B Units paid a distribution of \$0.21375 per unit for the second quarter.

- (7) Dividends are paid-in-kind.
- (8) On May 17, 2018, Enbridge Inc. ( ENB ) announced it has made proposals to the respective boards of directors of its sponsored vehicles, Spectra Energy Partners, LP ( SEP ), Enbridge Energy Partners, L.P. ( EEP ), Enbridge Energy Management, L.L.C. ( EEQ ) and Enbridge Income Fund Holdings Inc. ( ENF ), to acquire, with ENB stock, all of the outstanding equity securities of those sponsored vehicles not beneficially owned by ENB.
- (9) Security or a portion thereof is segregated as collateral on option contracts written.
- (10) The Fund believes that it is an affiliate of Buckeye Partners, L.P. ( BPL ), Plains AAP, L.P. ( PAGP-AAP ) and Plains GP Holdings, L.P. ( PAGP ). The Fund does not believe that it is an affiliate of California Resources Corporation. See Note 5 Agreements and Affiliations.
- (11) The Fund's ownership of PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or Plains All American Pipeline, L.P. ( PAA ) units at the Fund's option. The Fund values its PAGP-AAP investment on an as exchanged basis based on the higher public market value of either PAGP or PAA. As of May 31, 2018, the Fund's PAGP-AAP investment is valued at PAGP's closing price. See Notes 3 and 7 in Notes to Financial Statements.
- (12) On June 30, 2018, Tallgrass Energy GP, LP ( TEGP ) and Tallgrass Energy Partners, LP ( TEP ) completed their previously-announced stock-for-unit merger. TEGP acquired all TEP common units, and following completion of the merger, TEGP changed its name to Tallgrass Energy, LP ( TGE ).

See accompanying notes to financial statements.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**SCHEDULE OF INVESTMENTS**

**MAY 31, 2018**

**(amounts in 000 s, except number of option contracts)**

**(UNAUDITED)**

- (13) On May 17, 2018, The Williams Companies, Inc. ( WMB ) and Williams Partners L.P. ( WPZ ) announced an agreement under which WMB will acquire all common units of WPZ in an all stock-for-unit merger.
- (14) Unless otherwise noted, securities are treated as a publicly-traded partnership for RIC qualification purposes. To qualify as a RIC for tax purposes, the Fund may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly-traded partnerships. The Fund had 23.9% of its total assets invested in publicly-traded partnerships at May 31, 2018. It is the Fund's intention to be treated as a RIC for tax purposes.
- (15) On March 2, 2018, the Fund purchased, in a private placement, Class C Units from BPL. The BPL Class C Units are similar in all respects to the common units except that BPL has elected to pay distributions in-kind in additional BPL Class C Units instead of cash. The paid-in-kind BPL Class C Units are issued at a 12.5% discount to the volume weighted average price ( VWAP ) for the ten (10) days ending the day before the distribution is declared. The BPL Class C Units will convert on a one-for-one basis to BPL common units no later than March 2, 2020.
- (16) On May 10, 2018, Viper Energy Partners LP ( VNOM ) changed its tax status from that of a pass-through partnership to a taxable entity via a check the box election.
- (17) The rate indicated is the current yield as of May 31, 2018.
- (18) The notional amount of call option contracts written is the product of (a) the number of contracts written, (b) 100 (each contract entitles the option holder to 100 units/shares) and (c) the market price of the underlying security as of May 31, 2018.
- (19) Security is non-income producing.

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF ASSETS AND LIABILITIES****MAY 31, 2018****(amounts in 000 s, except share and per share amounts)****(UNAUDITED)****ASSETS**

|  |                |
|--|----------------|
| Investments, at fair value:  |                |
| Non-affiliated (Cost \$369,666)  | \$ 381,307     |
| Affiliated (Cost \$44,057)   | 45,960         |
| Short-term investments (Cost \$8,687)                                  | 8,687          |
| Total investments (Cost \$422,410)                                     | 435,954        |
| Cash   | 2,000          |
| Deposits with brokers  | 313            |
| Receivable for securities sold   | 2,653          |
| Interest, dividends and distributions receivable (Cost \$1,156)        | 1,154          |
| Deferred credit facility and term loan offering costs and other assets | 513            |
| <b>Total Assets</b>  | <b>442,587</b> |

**LIABILITIES**

|   |                |
|---|----------------|
| Payable for securities purchased  | 6,124          |
| Investment management fee payable   | 453            |
| Accrued directors' fees and expenses  | 88             |
| Call option contracts written (Premiums received \$51)  | 59             |
| Accrued expenses and other liabilities  | 1,609          |
| Notes   | 91,000         |
| Unamortized notes issuance costs  | (361)          |
| Mandatory redeemable preferred stock, \$25.00 liquidation value per share (1,400,000 shares issued and outstanding) | 35,000         |
| Unamortized mandatory redeemable preferred stock issuance costs   | (220)          |
| <b>Total Liabilities</b>  | <b>133,752</b> |

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** \$ 308,835

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS CONSIST OF**

|   |           |
|---|-----------|
| Common stock, \$0.001 par value (22,034,170 shares issued and outstanding and, 198,600,000 shares authorized) | \$ 22     |
| Paid-in capital   | 445,109   |
| Accumulated net investment income less distributions not treated as tax return of capital                     | (25,365)  |
| Accumulated net realized losses less distributions not treated as tax return of capital                       | (124,462) |
| Net unrealized gains  | 13,531    |

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** \$ 308,835

**NET ASSET VALUE PER COMMON SHARE** \$ 14.02

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF OPERATIONS**

(amounts in 000 s)

(UNAUDITED)

|  | For the Three<br>Months Ended<br>May 31, 2018 | For the Six<br>Months Ended<br>May 31, 2018 |
|--|---|---|
| <b>INVESTMENT INCOME</b>   |   |   |
| <b>Income</b>  |   |   |
| Dividends and distributions:   |   |   |
| Non-affiliated investments   | \$ 6,446                                      | \$ 12,513                                   |
| Affiliated investments   | 624   | 1,249                                       |
| Money market mutual funds  | 14  | 25  |
| Total dividends and distributions (after foreign taxes withheld of \$81 and \$143, respectively) | 7,084   | 13,787                                      |
| Return of capital  | (7,623)                                       | (12,409)                                    |
| Net dividends and distributions  | (539)   | 1,378                                       |
| Interest income  | 802   | 1,917                                       |
| Total Investment Income  | 263   | 3,295                                       |
| <b>Expenses</b>  |   |   |
| Investment management fees   | 1,310   | 2,702                                       |
| Professional fees  | 107   | 227   |
| Directors' fees and expenses   | 88  | 186   |
| Administration fees  | 46  | 94  |
| Insurance  | 26  | 53  |
| Reports to stockholders  | 17  | 47  |
| Custodian fees   | 16  | 33  |
| Other expenses   | 68  | 134   |
| Total Expenses before interest expense and preferred distributions                               | 1,678   | 3,476                                       |
| Interest expense and amortization of offering costs  | 1,055   | 2,113                                       |
| Distributions on mandatory redeemable preferred stock and amortization of offering costs         | 374   | 746   |
| Total Expenses   | 3,107   | 6,335                                       |
| <b>Net Investment Loss</b>   | <b>(2,844)</b>                                | <b>(3,040)</b>                              |
| <b>REALIZED AND UNREALIZED GAINS (LOSSES)</b>  |   |   |
| <b>Net Realized Gains (Losses)</b>   |   |   |
| Investments non-affiliated   | (4,580)                                       | (7,294)                                     |
| Foreign currency transactions  | (5)   | (3)   |
| Options  | 51  | 147   |
| Net Realized Losses  | (4,534)                                       | (7,150)                                     |
| <b>Net Change in Unrealized Gains (Losses)</b>   |   |   |

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|   |                  |                  |
|---|------------------|------------------|
| Investments non-affiliated  | 24,156           | 16,964           |
| Investments affiliated  | 2,958            | 3,447            |
| Foreign currency translations   | 2                |                  |
| Options   | (35)             | (8)              |
| <b>Net Change in Unrealized Gains</b>   | <b>27,081</b>    | <b>20,403</b>    |
| <b>Net Realized and Unrealized Gains</b>  | <b>22,547</b>    | <b>13,253</b>    |
| <b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS<br/>RESULTING FROM OPERATIONS</b> | <b>\$ 19,703</b> | <b>\$ 10,213</b> |

See accompanying notes to financial statements.



**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**

(amounts in 000 s, except share amounts)

|  | <b>For the Six<br/>Months Ended<br/>May 31,<br/>2018<br/>(Unaudited)</b> | <b>For the Fiscal<br/>Year Ended<br/>November 30,<br/>2017</b> |
|--|--|--|
| <b>OPERATIONS</b>  |  |  |
| Net investment income (loss) <sup>(1)</sup>                              | \$ (3,040)   | \$ 3,163   |
| Net realized gains (losses)  | (7,150)  | 19,067   |
| Net change in unrealized gains (losses)                                  | 20,403   | (65,299)   |
| <b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>   | <b>10,213</b>  | <b>(43,069)</b>  |
| <b>DIVIDENDS AND DISTRIBUTIONS TO COMMON STOCKHOLDERS <sup>(1)</sup></b> |  |  |
| Dividends  | (13,221) <sup>(2)</sup>  | (609) <sup>(3)</sup>   |
| Distributions - return of capital  | (2)  | (28,036) <sup>(3)</sup>  |
| <b>Dividends and Distributions to Common Stockholders</b>                | <b>(13,221)</b>  | <b>(28,645)</b>  |
| <b>Total Decrease in Net Assets Applicable to Common Stockholders</b>    | <b>(3,008)</b>   | <b>(71,714)</b>  |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>                      |  |  |
| Beginning of period  | 311,843  | 383,557  |
| End of period  | \$ 308,835   | \$ 311,843   |

(1) Distributions on the Fund's mandatory redeemable preferred stock (MRP Shares) are treated as an operating expense under GAAP and are included in the calculation of net investment income (loss). See Note 2 - Significant Accounting Policies. Distributions in the amount of \$711 paid to holders of MRP Shares during the six months ended May 31, 2018 are characterized as dividend income (a portion of which may be eligible to be treated as qualified dividend income) until after the end of the fiscal year when the Fund can determine its earnings and profits for the full fiscal year, which include gains and losses on the sale of securities for the remainder of the fiscal year. The final tax character may differ substantially from this preliminary information. Distributions in the amount of \$1,421 paid to holders of MRP Shares for the fiscal year ended November 30, 2017 were characterized as dividends. A portion of the distributions characterized as dividends for the fiscal year ended November 30, 2017 was eligible to be treated as qualified dividend income. This characterization is based on the Fund's earnings and profits.

(2) Distributions paid to common stockholders for the six months ended May 31, 2018 are characterized as dividend income (a portion of which may be eligible to be treated as qualified dividend income) until after the end of the fiscal year when the Fund can determine its earnings and profits for the full fiscal year, which include gains and losses on the sale of securities for the remainder of the fiscal year. The final tax character may differ substantially from this preliminary information.

(3) Distributions paid to common stockholders for the fiscal year ended November 30, 2017 were characterized as either dividends (a portion of which was eligible to be treated as qualified dividend income) or distributions (long term capital gains or return of capital). This characterization is based on the Fund's earnings and profits.

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED MAY 31, 2018****(amounts in 000 s)****(UNAUDITED)**

| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                 |
|---|-----------------|
| Net increase in net assets resulting from operations  | \$ 10,213       |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: |                 |
| Return of capital distributions   | 12,409          |
| Net realized losses (excluding foreign currency transactions)   | 7,147           |
| Net change in unrealized gains (excluding foreign currency translations)  | (20,403)        |
| Accretion of bond discounts, net  | (276)           |
| Purchase of long-term investments   | (69,527)        |
| Proceeds from sale of long-term investments   | 77,543          |
| Purchase of short-term investments  | (8,656)         |
| Increase in deposits with brokers   | (65)            |
| Increase in receivable for securities sold  | (2,378)         |
| Decrease in interest, dividends and distributions receivable  | 740             |
| Amortization of deferred debt offering costs  | 316             |
| Amortization of mandatory redeemable preferred stock offering costs   | 35              |
| Increase in other assets  | (43)            |
| Increase in payable for securities purchased  | 5,992           |
| Decrease in investment management fee payable   | (10)            |
| Increase in premiums received on call option contracts written  | 51              |
| Increase in accrued directors' fees and expenses  | 4               |
| Increase in accrued expenses and other liabilities  | 129             |
| <b>Net Cash Provided by Operating Activities</b>  | <b>13,221</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                 |
| Cash distributions paid to common stockholders  | (13,221)        |
| <b>Net Cash Used in Financing Activities</b>  | <b>(13,221)</b> |
| <b>NET DECREASE IN CASH</b>   |                 |
| <b>CASH BEGINNING OF PERIOD</b>   | <b>2,000</b>    |
| <b>CASH END OF PERIOD</b>   | <b>\$ 2,000</b> |

Supplemental disclosure of cash flow information:

During the six months ended May 31, 2018, interest paid related to debt obligations was \$1,773.

During the six months ended May 31, 2018, the Fund received \$1,505 of paid-in-kind dividends. See Note 2 Significant Accounting Policies.

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****FINANCIAL HIGHLIGHTS**

(amounts in 000 s, except share and per share amounts)

|   | For the<br>Six Months<br>Ended<br>May 31, 2018<br>(Unaudited) | For the Fiscal Year Ended<br>November 30, |            |
|---|---|---|------------|
|   |   | 2017                                      | 2016       |
| <b>Per Share of Common Stock<sup>(1)</sup></b>  |   |   |            |
| Net asset value, beginning of period  | \$ 14.15  | \$ 17.41                                  | \$ 17.56   |
| Net investment income (loss) <sup>(2)</sup>   | (0.14)  | 0.14                                      | (0.07)     |
| Net realized and unrealized gains (losses)  | 0.61  | (2.10)                                    | 1.43       |
| Total income (loss) from operations   | 0.47  | (1.96)                                    | 1.36       |
| Common dividends – dividend income <sup>(3)</sup>   | (0.60)  | (0.03)                                    | (1.50)     |
| Common distributions – long-term capital gain <sup>(3)</sup>  |   |   |            |
| Common distributions – return of capital <sup>(4)</sup>   |   | (1.27)                                    |            |
| Total dividends and distributions – common  | (0.60)  | (1.30)                                    | (1.50)     |
| Effect of shares issued in reinvestment of distributions  |   |   | (0.01)     |
| Effect of issuance of common stock  |   |   |            |
| Effect of common stock repurchased  |   |   |            |
| Net asset value, end of period  | \$ 14.02  | \$ 14.15                                  | \$ 17.41   |
| Market value per share of common stock, end of period   | \$ 13.13  | \$ 12.88                                  | \$ 15.33   |
| Total investment return based on common stock market value <sup>(5)</sup>   | 6.5% <sup>(6)</sup>   | (8.7)%                                    | 12.7%      |
| Total investment return based on net asset value <sup>(7)</sup>   | 3.5% <sup>(6)</sup>   | (11.7)%                                   | 12.7%      |
| <b>Supplemental Data and Ratios<sup>(8)</sup></b>   |   |   |            |
| Net assets applicable to common stockholders, end of period   | \$ 308,835  | \$ 311,843                                | \$ 383,557 |
| Ratio of expenses to average net assets   |   |   |            |
| Management fees <sup>(9)</sup>  | 1.8%  | 1.7%                                      | 1.8%       |
| Other expenses  | 0.5   | 0.4                                       | 0.5        |
| Subtotal  | 2.3   | 2.1                                       | 2.3        |
| Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>                               | 1.8   | 1.7                                       | 3.8        |
| Management fee waiver   |   |   |            |
| Excise taxes  |   |   |            |
| Total expenses  | 4.1%  | 3.8%                                      | 6.1%       |
| Ratio of net investment income (loss) to average net assets <sup>(2)</sup>  | (2.0)%  | 0.9%                                      | (0.5)%     |
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets | 3.3% <sup>(6)</sup>   | (11.9)%                                   | 10.3%      |
| Portfolio turnover rate   | 16.2% <sup>(6)</sup>  | 25.5%                                     | 48.2%      |
| Average net assets  | \$ 306,885  | \$ 360,869                                | \$ 314,015 |
| Notes outstanding, end of period <sup>(10)</sup>  | \$ 91,000   | \$ 91,000                                 | \$ 91,000  |

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|   |            |    |            |            |
|---|------------|----|------------|------------|
| Credit facility outstanding, end of period <sup>(10)</sup>                              |            | \$ |            | \$         |
| Term loan outstanding, end of period <sup>(10)</sup>                                    |            | \$ |            | \$ 27,000  |
| Mandatory redeemable preferred stock, end of period <sup>(10)</sup>                     | \$ 35,000  | \$ | 35,000     | \$ 35,000  |
| Average shares of common stock outstanding  | 22,034,170 |    | 22,034,170 | 21,975,582 |
| Asset coverage of total debt <sup>(11)</sup>  | 477.8%     |    | 481.1%     | 454.7%     |
| Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>             | 345.1%     |    | 347.5%     | 350.7%     |
| Average amount of borrowings per share of common stock during the period <sup>(1)</sup> | \$ 4.22    | \$ | 5.16       | \$ 4.86    |

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****FINANCIAL HIGHLIGHTS**

(amounts in 000 s, except share and per share amounts)

|   | For the Fiscal Year Ended<br>November 30, |            |            |
|---|---|------------|------------|
|   | 2015                                      | 2014       | 2013       |
| <b>Per Share of Common Stock<sup>(1)</sup></b>  |   |            |            |
| Net asset value, beginning of period  | \$ 39.51                                  | \$ 35.75   | \$ 29.01   |
| Net investment income (loss) <sup>(2)</sup>   | 0.30                                      | (0.01)     | (0.06)     |
| Net realized and unrealized gains (losses)  | (18.42)                                   | 5.61       | 8.61       |
| <br>  |   |            |            |
| Total income (loss) from operations   | (18.12)                                   | 5.60       | 8.55       |
| <br>  |   |            |            |
| Common dividends dividend income <sup>(3)</sup>   | (1.68)                                    | (1.57)     | (1.15)     |
| Common distributions long-term capital gain <sup>(3)</sup>  | (2.14)                                    | (0.34)     | (0.66)     |
| Common distributions return of capital <sup>(4)</sup>   |   |            |            |
| <br>  |   |            |            |
| Total dividends and distributions common  | (3.82) <sup>(4)</sup>                     | (1.91)     | (1.81)     |
| <br>  |   |            |            |
| Effect of shares issued in reinvestment of distributions  | (0.01)                                    | (0.02)     |            |
| Effect of issuance of common stock  |   |            |            |
| Effect of common stock repurchased  |   | 0.09       |            |
| <br>  |   |            |            |
| Net asset value, end of period  | \$ 17.56                                  | \$ 39.51   | \$ 35.75   |
| <br>  |   |            |            |
| Market value per share of common stock, end of period   | \$ 15.46                                  | \$ 35.82   | \$ 32.71   |
| <br>  |   |            |            |
| Total investment return based on common stock market value <sup>(5)</sup>   | (50.2)%                                   | 15.3%      | 23.5%      |
| Total investment return based on net asset value <sup>(7)</sup>   | (48.7)%                                   | 16.4%      | 30.5%      |
| <b>Supplemental Data and Ratios<sup>(8)</sup></b>   |   |            |            |
| Net assets applicable to common stockholders, end of period   | \$ 380,478                                | \$ 854,257 | \$ 788,057 |
| Ratio of expenses to average net assets   |   |            |            |
| Management fees <sup>(9)</sup>  | 1.9%                                      | 1.7%       | 1.8%       |
| Other expenses  | 0.2                                       | 0.2        | 0.2        |
| <br>  |   |            |            |
| Subtotal  | 2.1                                       | 1.9        | 2.0        |
| Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>                               | 2.5                                       | 1.7        | 1.8        |
| Management fee waiver   |   |            |            |
| Excise taxes  | 0.4                                       |            | 0.1        |
| <br>  |   |            |            |
| Total expenses  | 5.0%                                      | 3.6%       | 3.9%       |
| <br>  |   |            |            |
| Ratio of net investment income (loss) to average net assets <sup>(2)</sup>  | 1.0%                                      | (0.0)%     | (0.2)%     |
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets | (58.3)%                                   | 14.0%      | 25.9%      |
| Portfolio turnover rate   | 45.3%                                     | 45.3%      | 49.1%      |
| Average net assets  | \$ 672,534                                | \$ 887,585 | \$ 726,248 |
| Notes outstanding, end of period <sup>(10)</sup>  | \$ 185,000                                | \$ 235,000 | \$ 205,000 |
| Credit facility outstanding, end of period <sup>(10)</sup>  | \$  | \$         | \$ 50,000  |
| Term loan outstanding, end of period <sup>(10)</sup>  | \$  | \$ 46,000  | \$         |
| Mandatory redeemable preferred stock, end of period <sup>(10)</sup>   | \$ 70,000                                 | \$ 105,000 | \$ 65,000  |

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|   |            |            |            |
|---|------------|------------|------------|
| Average shares of common stock outstanding  | 21,657,943 | 21,897,671 | 21,969,288 |
| Asset coverage of total debt <sup>(1)</sup>   | 343.5%     | 441.4%     | 434.5%     |
| Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>             | 249.2%     | 321.3%     | 346.3%     |
| Average amount of borrowings per share of common stock during the period <sup>(1)</sup> | \$ 11.16   | \$ 12.84   | \$ 10.51   |

See accompanying notes to financial statements.



**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****FINANCIAL HIGHLIGHTS**

(amounts in 000 s, except share and per share amounts)

|   | For the Fiscal Year Ended |            | For the Period<br>November 24,<br>2010 <sup>(13)</sup><br>through<br>November 30,<br>2010 |
|---|---------------------------|------------|---|
|   | November 30,              |            |   |
|   | 2012                      | 2011       |   |
| <b>Per Share of Common Stock<sup>(1)</sup></b>  |                           |            |   |
| Net asset value, beginning of period  | \$ 25.94                  | \$ 23.80   | \$ 23.83 <sup>(14)</sup>  |
| Net investment income (loss) <sup>(2)</sup>   | 0.17                      | 0.29       | (0.02)  |
| Net realized and unrealized gains (losses)  | 4.64                      | 3.12       | (0.01)  |
| Total income (loss) from operations   | 4.81                      | 3.41       | (0.03)  |
| Common dividends dividend income <sup>(3)</sup>   | (1.30)                    | (1.20)     |   |
| Common distributions long-term capital gains <sup>(3)</sup>   | (0.41)                    |            |   |
| Common distributions return of capital <sup>(4)</sup>   |                           |            |   |
| Total dividends and distributions common  | (1.71)                    | (1.20)     |   |
| Effect of shares issued in reinvestment of distributions  | (0.03)                    | (0.04)     |   |
| Effect of issuance of common stock  |                           | (0.03)     |   |
| Effect of common stock repurchased  |                           |            |   |
| Net asset value, end of period  | \$ 29.01                  | \$ 25.94   | \$ 23.80  |
| Market value per share of common stock, end of period   | \$ 28.04                  | \$ 22.46   | \$ 25.00  |
| Total investment return based on common stock market value <sup>(5)</sup>   | 33.3%                     | (5.5)%     | 0.0% <sup>(6)</sup>   |
| Total investment return based on net asset value <sup>(7)</sup>   | 19.4%                     | 14.7%      | (0.1)% <sup>(6)</sup>   |
| <b>Supplemental Data and Ratios<sup>(8)</sup></b>   |                           |            |   |
| Net assets applicable to common stockholders, end of period   | \$ 635,226                | \$ 562,044 | \$ 452,283  |
| Ratio of expenses to average net assets   |                           |            |   |
| Management fees <sup>(9)</sup>  | 1.7%                      | 1.6%       | 1.3%  |
| Other expenses  | 0.3                       | 0.3        | 0.3 <sup>(15)</sup>   |
| Subtotal  | 2.0                       | 1.9        | 1.6   |
| Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>                               | 1.8                       | 1.3        |   |
| Management fee waiver   |                           | (0.3)      | (0.3)   |
| Excise taxes  |                           |            |   |
| Total expenses  | 3.8%                      | 2.9%       | 1.3%  |
| Ratio of net investment income (loss) to average net assets <sup>(2)</sup>  | 0.6%                      | 1.1%       | (1.3)% <sup>(15)</sup>  |
| Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets | 16.8%                     | 13.4%      | (0.1)% <sup>(6)</sup>   |
| Portfolio turnover rate   | 67.6%                     | 74.1%      | 0.0% <sup>(6)</sup>   |
| Average net assets  | \$ 620,902                | \$ 537,044 | \$ 452,775  |

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|   |            |            |            |
|---|------------|------------|------------|
| Notes outstanding, end of period <sup>(10)</sup>  | \$ 165,000 | \$ 115,000 | \$         |
| Credit facility outstanding, end of period <sup>(10)</sup>                              | \$ 48,000  | \$ 45,000  | \$         |
| Term loan outstanding, end of period <sup>(10)</sup>                                    | \$         | \$         | \$         |
| Mandatory redeemable preferred stock, end of period <sup>(10)</sup>                     | \$ 65,000  | \$ 35,000  | \$         |
| Average shares of common stock outstanding  | 21,794,596 | 21,273,512 | 19,004,000 |
| Asset coverage of total debt <sup>(11)</sup>  | 428.7%     | 473.2%     |            |
| Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>             | 328.5%     | 388.2%     |            |
| Average amount of borrowings per share of common stock during the period <sup>(1)</sup> | \$ 8.85    | \$ 6.50    |            |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**FINANCIAL HIGHLIGHTS**

**(amounts in 000 s, except share and per share amounts)**

- (1) Based on average shares of common stock outstanding.
- (2) Distributions on the Fund's MRP Shares are treated as an operating expense under GAAP and are included in the calculation of net investment income (loss). See Note 2 Significant Accounting Policies.
- (3) The actual characterization of the distributions made during the six months ended May 31, 2018 will not be determinable until after the end of the fiscal year when the Fund can determine its actual earnings and profits for the full fiscal year (which include gains and losses on the sale of securities for the remainder of the fiscal year) and may differ substantially from this preliminary information. The information presented for each of the other periods is a characterization of the total distributions paid to the common stockholders as either dividend income (a portion of which was eligible to be treated as qualified dividend income) or distributions (long-term capital gains or return of capital) and is based on the Fund's earnings and profits.
- (4) Includes special distribution of \$1.80 per share paid in July 2015.
- (5) Total investment return based on market value is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Fund's dividend reinvestment plan.
- (6) Not annualized.
- (7) Total investment return based on net asset value is calculated assuming a purchase of common stock at the net asset value on the first day and a sale at the net asset value on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Fund's dividend reinvestment plan.
- (8) Unless otherwise noted, ratios are annualized.
- (9) Ratio reflects total management fee before waiver, if any.
- (10) Principal/liquidation value.

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- (11) Calculated pursuant to section 18(a)(1)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Notes (principal value) or any other senior securities representing indebtedness and MRP Shares (liquidation value) divided by the aggregate amount of Notes and any other senior securities representing indebtedness. Under the 1940 Act, the Fund may not declare or make any distribution on its common stock nor can it incur additional indebtedness if at the time of such declaration or incurrence its asset coverage with respect to senior securities representing indebtedness would be less than 300%. For purposes of this test, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.
  
- (12) Calculated pursuant to section 18(a)(2)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Notes (principal value), any other senior securities representing indebtedness and MRP Shares divided by the aggregate amount of Notes, any other senior securities representing indebtedness and MRP Shares (liquidation value). Under the 1940 Act, the Fund may not declare or make any distribution on its common stock nor can it issue additional preferred stock if at the time of such declaration or issuance, its asset coverage with respect to all senior securities would be less than 200%. In addition to the limitations under the 1940 Act, the Fund, under the terms of its MRP Shares, would not be able to declare or pay any distributions on its common stock if such declaration would cause its asset coverage with respect to all senior securities to be less than 225%. For purposes of these asset coverage ratio tests, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.
  
- (13) Commencement of operations.
  
- (14) Initial public offering price of \$25.00 per share less underwriting discounts of \$1.125 per share and offering costs of \$0.05 per share.
  
- (15) For purposes of annualizing other expenses of the Fund, professional fees and reports to stockholders are fees associated with the annual audit and annual report and therefore have not been annualized.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

(amounts in 000 s, except number of option contracts, share and per share amounts)

(UNAUDITED)

**1. Organization**

Kayne Anderson Midstream/Energy Fund, Inc. (the Fund or KMF) was organized as a Maryland corporation on August 26, 2010 and commenced operations on November 24, 2010. The Fund is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a non-diversified, closed-end investment management company. The Fund's investment objective is to provide a high level of return with an emphasis on making quarterly cash distributions to its stockholders. The Fund seeks to achieve that investment objective by investing at least 80% of its total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. The Fund's shares of common stock are listed on the New York Stock Exchange, Inc. ( NYSE ) under the symbol KMF.

On February 15, 2018, KA Fund Advisors, LLC ( KAFA ) announced that the Board of Directors of Kayne Anderson Midstream/Energy Fund, Inc. ( KMF ) and the Board of Directors of Kayne Anderson Energy Total Return Fund, Inc. ( KYE ) approved the proposed merger of KYE with and into KMF (the Reorganization ). Information on the Reorganization is contained in the definitive joint proxy statement/prospectus filed with the Securities and Exchange Commission (the SEC ) on May 30, 2018 and sent to KMF and KYE stockholders. Subject to KYE stockholder approval, KYE common stockholders will be issued KMF common stock, and KMF will acquire substantially all the assets and liabilities of KYE at an exchange ratio based on the relative Net Asset Value ( NAV ) per share of each fund immediately prior to the closing of the Reorganization. See Note 14 Subsequent Events.

**2. Significant Accounting Policies**

The following is a summary of the significant accounting policies that the Fund uses to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America ( GAAP ). The Fund is an investment company and follows accounting and reporting guidance of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification (ASC) Topic 946 Financial Services Investment Companies.

*A. Use of Estimates* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ materially from those estimates.

*B. Cash and Cash Equivalents* Cash and cash equivalents include short-term, liquid investments with an original maturity of three months or less and include money market fund accounts.

*C. Calculation of Net Asset Value* The Fund determines its net asset value on a daily basis and reports its net asset value on its website. Net asset value is computed by dividing the value of the Fund's assets (including accrued interest and distributions), less all of its liabilities (including accrued expenses, distributions payable and any indebtedness) and the liquidation value of any outstanding preferred stock, by the total number of common shares outstanding.

*D. Investment Valuation* Readily marketable portfolio securities listed on any exchange other than the NASDAQ Stock Market, Inc. ( NASDAQ ) are valued, except as indicated below, at the last sale price on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the most recent bid and ask prices on such day. Securities admitted to trade on the NASDAQ are valued at the NASDAQ official closing price. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined at the close of the exchange representing the principal market for such securities.

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Equity securities traded in the over-the-counter market, but excluding securities admitted to trading on the NASDAQ, are valued at the closing bid prices. Debt securities that are considered bonds are valued by using the

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(amounts in 000 s, except number of option contracts, share and per share amounts)**

**(UNAUDITED)**

mean of the bid and ask prices provided by an independent pricing service or, if such prices are not available or in the judgment of Kafa such prices are stale or do not represent fair value, by an independent broker. For debt securities that are considered bank loans, the fair market value is determined by using the mean of the bid and ask prices provided by the agent or syndicate bank or principal market maker. When price quotes for securities are not available, or such prices are stale or do not represent fair value in the judgment of Kafa, fair market value will be determined using the Fund's valuation process for securities that are privately issued or otherwise restricted as to resale.

Exchange-traded options and futures contracts are valued at the last sales price at the close of trading in the market where such contracts are principally traded or, if there was no sale on the applicable exchange on such day, at the mean between the quoted bid and ask price as of the close of such exchange.

The Fund holds securities that are privately issued or otherwise restricted as to resale. For these securities, as well as any security for which (a) reliable market quotations are not available in the judgment of Kafa, or (b) the independent pricing service or independent broker does not provide prices or provides a price that in the judgment of Kafa is stale or does not represent fair value, each shall be valued in a manner that most fairly reflects fair value of the security on the valuation date. Unless otherwise determined by the Board of Directors, the following valuation process is used for such securities:

***Investment Team Valuation.*** The applicable investments are valued by senior professionals of Kafa who are responsible for the portfolio investments. The investments will be valued monthly, with new investments valued at the time such investment was made.

***Investment Team Valuation Documentation.*** Preliminary valuation conclusions will be determined by senior management of Kafa. Such valuations and supporting documentation are submitted to the Valuation Committee (a committee of the Fund's Board of Directors) and the Board of Directors on a quarterly basis.